



General Practitioner Industry Benchmark Report 2020



Foreword

General Practice is always at the forefront of changes to the medical industry, and with the current challenging landscape it is important to make sure your practice is financially sound and investing resources in the right tools to enable growth.

We know that general practices are the backbone of the Australian medical industry and they are the backbone of Prosperity's health practice. Prosperity Health specialises in providing medical and allied health professionals with the financial services they need. Our team of specialists provide comprehensive planning, accounting, audit, taxation, salary packaging and personal financial advice to a wide range of health sector members.

At Prosperity Health, we want to make sure we are doing everything possible to support our general practice clients to grow, improve and eventually sell their practices for the highest price, so they can live and retire financially secure. We have invested in developing our own professional skills, so we can make sure our clients receive best of breed advice from us and our trusted team of experts.

With 11 partners and over 140 staff throughout the firm Prosperity has the necessary expertise, experience and resources to service our clients' needs throughout NSW, ACT and QLD. We are very proud of our leading reputation and we follow best practice processes and procedures to ensure our clients receive consistently high-quality services and solutions.

To provide our practice owning GPs with accurate, real time industry performance benchmarking information, we have once again conducted the Prosperity Health Benchmark Study. Now in its sixth year, the study assists many practices to understand their key performance metrics and to keep ahead of their competition.

Stephen Guthrie
Director
Prosperity Health

General Practice benchmarks are a crucial tool in understanding the drivers in your business.

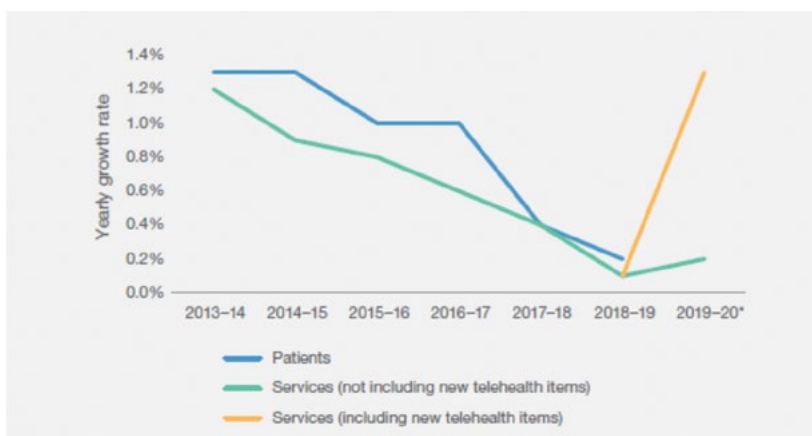
2020 saw a shift in how medical services were provided, with COVID-19 accelerating the use of Telehealth.

RECENT INDUSTRY ANALYSIS

2020 was influenced heavily by the impact of COVID-19 and saw a rise in telehealth consultations, with medical practices leaning more heavily into technology to deliver patient services.

The 2020 RACGP industry report into General Practice Medical Services provides some interesting high-level industry statistics and insights:

- General practices are the most accessed area of the health system with 90% of patients reporting that they visit their GP at least once per year.
- Psychological issues, including depression, anxiety and sleep disturbance, remain the most commonly seen presentations in general practice, with 64% of GPs reporting these as their three most common reasons for patient presentations.
- The most commonly reported challenges for GP practice owners have remained the same as in previous years. GPs who are practice owners are more concerned with maintaining practice accreditation and electronic systems, maintaining income and their work-life balance, and staffing issues, than non-practice owner GPs.
- The number of non-owners reporting no interest in becoming a practice owner has increased from 53% in 2017 to 61% in 2020.
- Three in four GPs in training reported a decrease in their patient load since the COVID-19 pandemic, and for half of these this was a significant decrease.
- Two of the top challenges faced by GP's during the pandemic were the inability to provide usual care and access to personal protective equipment.
- Overall use of telehealth has increased significantly as a result of the pandemic, with 97% of respondents providing care either via phone (96%) or video (30%), compared to just 15% prior to the pandemic.
- Most GPs think up to 25% of their patient consultations can be via telehealth post-pandemic.
- Seven in ten GPs report that their income or revenue in April/May 2020 was lower than it was in the same period in 2019. For one in four GPs, their income was much lower.
- The number of general practice services being bulk billed has been escalated by the pandemic.



ABOUT THE PROSPERITY HEALTH GP BENCHMARKING STUDY

Our practice benchmarking study is in its sixth year and covers a broad cross section of our GP clients from NSW, QLD and the ACT. Respondent practices covered a diverse cross section of the general practice industry.

The benchmarking and key performance indicator (KPI) results have been divided into four broad categories:

- Trading KPI's including patient fees, bulk billing rate, and billing consultations split between consultation levels;
- Growth and Performance KPI's including consulting room utilisation levels, patients per GP, and net profit
- Staff KPI's including the percentage of GPs that are full time, and staff salaries; and
- Operating Cost KPI's including rent, electricity, bank fees etc. as a percentage of patient fees.

In each category we have provided two measures:

Industry average This represents the average benchmark / KPI result across the whole database of contributing practices.

Highest 20% This shows the benchmark / KPI result for the upper 20% of each category, calculated separately for each individual benchmark.

Over the next few pages we have listed some of what we see as the key highlights from the study.

Six years of benchmarking data is starting to show some trends.



UNDERSTANDING THE BENCHMARK NUMBERS

Major variables on practice performance remain to be billings, service fees and wages.

Not all benchmarks are created equal. While collecting the data is crucial, understanding and interpreting the results is where knowledge is gained. Over the last 6 years we have found some results to be interesting but expected, and others to be much more relevant to the end users of the reports.

Some of the key findings that we see as important to running a financially sound practice are highlighted below:

A large portion of Practice income is usually derived from the Service fees charged to consulting Doctors. This means the performance of the Doctors at a clinic is crucial to the financial success of the Practice itself. Once expenses are paid, and the profit is determined, we can measure the contribution to this profit on a Full Time Equivalent (FTE) basis. How the final profit is arrived at can vary, but at the end of the day it is important to understand what this profit is.

Essentially the major variables are:

- The Fees (Billings) of the GP;
- The Service fee percentage charged; and
- Wages paid to Nurses and admin staff.

The Fees (Billings) of the GP

The first piece of the puzzle is the billing of the Doctors. The Practice receives a service fee based on the billings of the Doctors and this makes up a majority of the income of the practice. Some Doctors will bulk bill and some will have a majority of private billings. Even when bulk billing, the amount billed is also then dependent on the consultation level undertaken and billed.

Our numbers show that the average billings per FTE GP is around \$389,000 with the top 20% billing \$588,000 per year. The average billing per GP has dropped and a contributing factor for 2020 was the impact of COVID with the transition to a greater number of telehealth consultations. We also note that the more successful practices tend to have higher Level B and Level D consultations.

	Study Average	Top 20%
Fees charged per GP	\$389,075	\$588,156
Bulk Billing Percentage	58.6%	93.8%
Level B Consultation %	62.0%	76.5%
Level D Consultation %	4.7%	13.8%

The Service fee percentage charged

While Service fees charged are dependent on many factors including the patient mix and supply and demand of the Doctors, as a rule a higher percentage is charged by those practices where greater assistance through nurses and admin staff is provided.

Wages paid to Nurses and Administration staff

As billings are typically considered income of the Doctors, the Practice then charges the Doctors a service fee, and this service fee is recognised as income of the practice (not an expense). Therefore typically the wages paid to staff is the largest expense of the practice. We have found that this can be a big factor in the financial success of the practice. In a perfect world when Nurses are more involved in the patient care, the Doctors would be taking less as a percentage of billings to account for the work of the nurses, and overall both the Doctor and the Practice would be in a better financial position. However this is not a perfect world and the Practice needs to monitor the service fees charged and the use of Nurses (paid by the practice) to make sure that the Doctor / Nurse number are financially viable.

On average the top 20% of practices are paying 14.0% of billing to the Nurses and Administration Staff as Wages and Salaries (including on-costs). The average is now up to 21.6% and is a big factor in the success of the practice.

We have seen year on year increases (based on a percentage of billings) paid to Nurse and Administration staff. Those in the top 20% are investing more heavily into technology and automation to increase billings without increasing the amount of staff needed to deliver the same level of service.

	Study Average	Top 20%
Nurse and Administration Salaries	21.6%	14.0%

It should be noted that some practices with high staff costs are quite successful in providing assistance to the Doctors, with a consequential increase in the billings of the Doctors - this is however a delicate mix and does need to be monitored.

Gross and Net Profit

The factors above are part of a bigger picture and will be variable factors in the overall profit of the Practice. One way to view this is the Profit percentage. This is the actual profit of a practice expressed in terms of the dollar value of billings during the year.

Gross profit margin for the surveyed practices averaged 35.9%. In absolute dollar terms, gross profit per GP (taking into account owners, contractors and contributing GPs) averaged around \$166,000, with higher performing practices averaging more than \$250,000 per GP. This measure shows how much extra gross profit should be expected to be added to the practice (after the GP takes their fee cut) for every additional GP working in the practice.

After factoring in the fixed costs of the practices, we can determine the net profit of the practices. The average net profit rate across the industry was 11.30%.

In this survey, net profit represents the profit available to the owner GPs after all operating costs and after allowing for an arms-length split of their direct patient fees (calculated at 60-65% of gross fees, depending on the region).

	Study Average	Top 20%
Net Profit %	11.3%	25.0%

Given the risk involved in running a practice and the extra time typically invested by owner Doctors into the practice, is this return on investments enough to warrant the additional stress and time? Or is it easier to simply take a percentage of billing for someone else? A growing trend we see is that younger Doctors are remaining as contractors in order to enjoy continued flexibility and reduced stress.

Should
Practices
have to pay
Payroll tax on
contracting
Doctors?

Other things to consider

The pandemic saw the increase in the cost of providing patient care, with some practices also seeing a reduction in billings. These factors are driving interest into pursuing new growth opportunities as practices continue to navigate the COVID-19 environment.

The 2020 Commonwealth Bank Australia (CBA) industry report into General Practices provides some interesting insights:

- 85% of practices said consumable costs were up and 75% cited rising technology costs.
- 59% of practices are looking for new ways to reduce costs, including finding alternative suppliers and renegotiating leases.
- To grow revenues and satisfy patient demand, practices' top priority is expanding the range of services offered by general practitioners and recruiting staff into the practice.
- 43% of practices are planning to introduce new services over the next two years.
- 70% of patients access non-core services that can be provided by GPs at the practice.
- 80% of practices will increase their investment in technology over the next two years.
- 60% of practice don't have a business plan in place on how they will achieve their objectives.

Is your practice 'payroll tax audit ready'?

We are aware that NSW Office of State Revenue (OSR) have conducted at least 20 payroll tax audits of medical practices so far and, in the view of a payroll tax expert, are actively engaged in an audit program. Given the similarities in legislation across the State jurisdictions, we anticipate Queensland and ACT will follow suit. Unfortunately, on the back of the Optical Superstores precedent, OSR have issued audit claims for substantial sums covering payroll tax and penalties going back five years – in some cases amounting to hundreds of thousands of dollars.

OSR currently have taken the view, based on the Optical Superstores precedent, that any instance where:

- A practice contracts with doctors to provide medical services to patients of the practice;
- The practice collects the patient billings; and
- The practice on-pays a net amount to the doctor after deduction of management/service fees

will potentially expose the medical practice to payroll tax on the net payment to the doctor (eg. payroll tax should be levied on the 65% of gross billings paid to doctors).

Unless either the law is changed (as proposed by AMA (NSW)) or a medical practice successfully challenges OSR in a court case which overturns the decision in Optical Superstores, it appears that practices are at risk.

We have been working with a payroll tax specialist to develop a staged approach to reviewing the position of our practice clients with the express purpose of minimising their risk profile and hence any penalties that may be levied by OSR in the event of an audit.

We recommend every practice should be reviewing their possible exposure (likely to be tens of thousands if not more).

Please contact us if you or someone you may know are interested in obtaining a quote for the first step in this process and we can discuss the information you will need to provide.

INVESTMENT IN TECHNOLOGY CAN INCREASE THE VALUE OF YOUR PRACTICE

The technologies available to practices continue to expand each year, helping practices become more efficient, generate better returns for owners and increase their attractiveness when selling. Since the 2019 GP industry benchmark report was issued, we've seen a number of new technologies being rolled out in practices including a practice intelligence platform assisting with making informed practice management decisions.

Investment in technology isn't free, but where this reduces the cost of admin wages required to run manual systems, then over time this can be a large benefit to the practice, saving costs in the process, and freeing up time to be invested elsewhere.

For those practices looking to grow their patient and billings base, there are three focus areas to consider increased investment:

- Improved management of records, utilising software and systems to help achieve this, which allows more streamlined communications across the practice, allied health and patients.
- Patient and appointment management, increasing patient engagement and personalisation for patient health outcomes.
- Physical hardware improvements which supports the improvement of systems and software in the practice.

The RACGP technology survey offers notable insights into technology use:

- Almost two-thirds of GPs recommend health apps to their patients at least weekly; only 26% rarely or never recommend apps to patients (down from 47% in the previous year).
- 71% of GPs felt satisfied with how often they were using technology in their practice.
- 50% of GPs felt comfortable experimenting with new technology.
- 87% of GPs are completely digital and maintain no paper records, with 73% of GP respondents working in practices uploading patient information to My Health Record.

Technology adoption is expected to be a continued driver, as the younger generations (especially generation Z) believe that the adoption of new technology will deliver an improved experience whilst visiting the practice.

Will investment in technology assist in reducing wage costs?

Is your practice
meeting or
exceeding the
benchmarks?

CONCLUSION

At Prosperity Health we offer tailored benchmarking and practice consulting services to help you monitor and improve the performance, growth, profitability and value of your practice. For further details and to review your own practice planning matters, contact your local Prosperity Health office to arrange for an initial consultation.

WANT TO GET INVOLVED?

Health practitioners understand the importance of diagnosing the correct cause of a health issue. By correctly identifying the symptoms, the right treatment can be provided and the benefit to the patient will be invaluable.

Please call your local Prosperity Health office or email us at mail@prosperity.com.au for more details.



ABOUT PROSPERITY HEALTH

Prosperity is an independently owned, award-winning chartered accounting and financial advisory firm with offices in Sydney, Brisbane and Newcastle.

Our Health team specialises in providing medical and allied health professionals with the financial services they need. Our team of specialists provide comprehensive accounting, audit, taxation, salary packaging and financial advisory services to practices of all sizes as well as individual practitioners and their families.

With 11 partners and over 140 staff throughout the firm, Prosperity has the necessary expertise, experience and resources to service our clients' needs throughout NSW, the ACT and QLD. We are very and procedures to ensure our clients receive consistently high-quality service and solutions proud of our reputation among our clients and we follow best practice processes.

Our experienced Prosperity Health team can work closely with you to assess your individual circumstances and work with you to develop strategies to reach financial goals and objectives.

Your Prosperity
is our business





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